RESEARCH REPORTS

AIER publishes over 100 articles per month that are distributed in digital form. Research Reports contains Business Conditions Monthly plus 10 of the most representative, chosen here for popularity, variety, and relevance. These articles are often reprinted in venues around the web, including Seeking Alpha, Intellectual Takeout, Mises Brasil, and dozens of other outlets. To read all of them, go to www.aier.org
## Contents

5  Business Conditions Monthly  
   Peter C. Earle

10 Leading Indicators

17 Roughly Coincident Indicators

21 Lagging Indicators

25 Capital Market Performance

26 China’s Economic Facade is Cracking  
   Samuel Gregg

28 Industrial Policy’s Short-Run Booms Risk Long-Term Failures  
   Ryan M. Yonk  
   Jacob Bruggeman

30 Inflation Remained Elevated in February  
   William J. Luther

32 Preserve Architectural History with Incentives, Not Bans  
   Jason Sorens  
   Thomas Savidge

34 Assessing Bidenomics: The Fatal Conceit of National Commercial Policy  
   Nikolai G. Wenzel

37 Fiscal Federalism Turned Upside-Down  
   Peter C. Earle  
   Thomas Savidge

39 Did Government Red Ink Make the US More Dynamic than Europe?  
   Jason Sorens

41 EPA Phase Out of Gas-Powered Cars Has Ominous Historic Echoes  
   Jon Miltimore

44 Another Dismal Tax Day: Can It Drive Fiscal Reform?  
   Vance Ginn

46 ESG Puppeteers  
   Paul Mueller
In February 2023, the AIER Business Conditions Monthly demonstrated divergent signals yet again. The Leading Indicator rose from 67 to 75 with the Roughly Coincident Indicator spending a fourth month at the 75 level. The Lagging Indicator, which dropped to 0 in December 2023 before rebounding to 50 in January fell back again to 33.

(Source: Bloomberg Finance, LP)
Leading Indicator (75)
Among the twelve components of the Leading Indicator, seven rose and five declined.

Rising in February 2023 were the US New Privately Owned Housing Units Started by Structure Total SAAR (12.7 percent), FINRA Customer Debit Balances in Margin Accounts (5.9 percent), Conference Board US Leading Index Stock Prices 500 Common Stocks (4.3 percent), Adjusted Retail & Food Services Sales Total SA (0.9 percent), Conference Board US Manufacturers New Orders Nondefense Capital Good Ex Aircraft (0.6 percent), US Average Weekly Hours All Employees Manufacturing (0.5 percent), and the Conference Board US Leading Index Manuf New Orders Consumer Goods & Materials (0.1 percent).

The five declining components were the Inventory/Sales Ratio: Total Business (-0.7 percent), United States Heavy Trucks Sales SAAR (-1.6 percent), University of Michigan Consumer Expectations Index (-2.5 percent), US Initial Jobless Claims (-5.3 percent), and the 1-to-10 year US Treasury spread (-6.4 percent).

The Leading Indicator, at 75, suggests a sustained level of moderate growth, maintaining a consistent trend within the range of above-neutral performance observed over the past year.

Roughly Coincident (75) and Lagging Indicators (33)
Among the six constituents of the Roughly Coincident indicator four rose, one was neutral, and one declined in February. US Industrial Production (0.4 percent), Conference Board Coincident Personal Income Less Transfer Payments (0.2 percent), Conference Board Coincident Manufacturing and Trade Sales (0.2 percent), and US Employees on Nonfarm Payrolls (0.2 percent) rose. The US Labor Force Participation Rate was unchanged, and the Conference Board Consumer Confidence Present Situation SA 1985=100 declined 4.8 percent.

The Lagging Indicator had three rising and three falling components. In the first category were the Conference Board US Lagging Commercial and Industrial Loans (0.9 percent), Conference Board US Lagging Avg Duration of Unemployment (0.5 percent), and US Manufacturing & Trade Inventories Total (0.5 percent). US Commercial Paper Placed Top 30 Day Yield fell 0.2 percent, as did Census Bureau US Private Constructions Spending Nonresidential (-0.9 percent) and US CPI Urban Consumers Less Food & Energy year-over-year (-2.7 percent). At the 75 level for four months now, the Roughly Coincident Indicator suggests relative stability of moderate growth. In contrast, the Lagging Indicator suggests moderate contraction, continuing a pattern of sizable fluctuations from month to month.

Discussion
The release of the Fed’s Beige Book on April 17, 2024, provided insights into economic conditions across various regions of the US. The first quarter of 2024 was characterized by a “slight” expansion, aligning with previous downbeat descriptions of activity. Ten Federal Reserve districts reported growth compared to eight in February, although consumer spending showed a minimal increase, which contrasts with recent retail sales figures. Among other trends noted were increasing price sensitivity and reduced discretionary spending. Respondents to Fed surveys expressed cautious optimism about growth, although employment growth remained modest with ongoing labor shortages in certain sectors. Wage pressures continued to ease, while inflation remained steady, though some districts reported increasing pressure on margins due to difficulty in passing on price increases, posing potential upside risks.

The March industrial production report presented an upside surprise, exceeding initial expectations. Manufacturing production, in particular, showed unexpected strength, with February’s data revised upward, setting a higher base for measuring monthly growth. The surge in production was fueled by robust consumer demand for automobiles, traditionally an interest-sensitive sector, as well as fuel. With consumer demand resilient and survey data indicating strengthening conditions,
it may be the case that US industrial production has surpassed its previous trough. Not only did deadline industrial production grow in March, aligning with consensus and expectations, but February's figures were revised up substantially from 0.1 percent to 0.4 percent. Notably, manufacturing production outperformed forecasts, rising by 0.5 percent during the month, exceeding both survey expectations and consensus estimates. The increase in consumer goods production, particularly in automobiles and parts, contributed significantly to this growth. Durable-goods manufacturing and production of nondurable goods also made substantial contributions to monthly industrial-production growth.

The employment landscape depicted by the Bureau of Labor Statistics' establishment survey (which polls roughly 144,000 businesses) and household survey (which surveys roughly 60,000 families) have diverged significantly of late, revealing contrasting economic realities. Sectors buoyed by spending from asset-appreciation beneficiaries (leisure, hospitality, and healthcare, among others) are showing robust employment gains while other sectors are witnessing reduced demand. The latter tend to be associated with lower-income consumers, and are experiencing slowing growth and hiring limitations. This disparity is likely to persist, exacerbating difficulties in interpretation.

Recent strength in nonfarm payrolls data has outpaced expectations, averaging around 250,000 new jobs per month. This is more than twice the Federal Reserve's estimated steady state pace of 100,000 per month. A prevailing theory attributes that robust growth to the incredible surge in immigration over the past few years, suggesting that a new, higher neutral hiring pace of from 150,000 to 250,000 per month.

Yet there is cause for skepticism regarding the accuracy of nonfarm payrolls in capturing undocumented workers. The household survey likely offers a more accurate reflection of labor market health than the establishment survey does.

Despite the consensus view, the household survey indicates a cooling labor market, challenging the notion of continued robust hiring amidst an influx of migrants. Methodological differences between the establishment and household surveys underpin the discrepancy, with the household survey more effective in recording the employment of potentially undocumented workers. While the establishment survey captures jobs more prone to pro-cyclical fluctuations – such as temporary positions and “gig economy” work – the household survey provides a more comprehensive picture of labor market dynamics.

Consequently, policymakers may need to recalibrate their assessment of the economy’s capacity to absorb a significant influx of low-skilled migrants amidst mounting labor market slack. Recent policy changes, such as California’s significant minimum wage hike are additionally impacting employment dynamics, exacerbating the softening in the labor market. Despite the strength in nonfarm payrolls, household survey data suggest weaker employment gains, reflecting a cooling labor market.

The March’s Consumer Price Index (CPI) data presented a concerning signal for the ongoing fight against inflation, especially considering the favorable seasonal patterns typically conducive to disinflation during this period. Both headline and core CPI remained unchanged from February, with year-over-year figures ticking up slightly. Of particular note is the persistent momentum in core CPI on various timescales, indicating that progress on disinflation may have stalled or effectively stopped. Notably, energy prices and shelter costs continue to be primary drivers of inflation, with gasoline prices and rents contributing significantly to headline CPI growth. Furthermore, core services, particularly transportation services, are experiencing notable inflationary pressures reflective of the lingering effects of price increases in new and used vehicles.
Despite some encouraging signs of disinflation in certain categories, such as core goods, the diffusion of disinflation remains uneven. Monetary policy’s effectiveness in curbing inflationary pressures appears to be improving, as evidenced by declining price pressures in some interest-sensitive spending categories. However, the share of core spending categories experiencing outright deflation remains relatively high, indicating ongoing challenges in achieving broad-based disinflation.

In light of these developments, and evidenced by statements made by Fed officials in recent weeks, policymakers are reassessing their inflation outlook and the consequent policy trajectory. It is quite likely that the Fed’s timeline for rate adjustments will be delayed. Market-implied policy rate markets, which late in 2023 predicted five or six rate cuts in 2024 have downgraded their forecast to two.

Amidst mixed economic data reminiscent of most of the past two years, there are pockets of strength which are nevertheless overshadowed by inflation concerns and speculation regarding monetary policy actions in the coming quarter or two. Labor markets are cooling, adding to the uncertainty surrounding the trajectory of the US economy. Notably, both the spot price of gold and the S&P 500 have reached record highs in close succession on multiple occasions in the past month, handily reflecting market-expressed uncertainty about the economic outlook. While the likelihood of a pronounced economic contraction seems to be diminishing, classic indicators of recession continue to strongly signal a downturn within the next 12 months. The absence of a discernible path recommends objectively presenting factual data and trends devoid of bias or prognostication.
Leading Indicators

May 2024

US Average Weekly Hours All Employees Manufacturing SA

Hours per Week

Average: 40.35
High: 41.1 (05/31/2014)
Low: 38 (04/30/2020)

Date

University of Michigan Index of Consumer Expectations

Survey Q1 1966 = 100

Average: 78.39
High: 108.6 (01/31/2000)
Low: 44.3 (03/31/1980)

Date

(Source: Bloomberg Finance, LP)
(Source: Bloomberg Finance, LP)
Conference Board US Leading Index Stock Prices 500 Common Stocks

Average: 1288.17
High: 5011.96 (02/29/2024)
Low: 102.97 (04/30/1980)

1 Year - 10 Year Bond Yield Spread

Average: 130.39
High: 344.33 (03/1/2010)
Low: -160.22 (06/30/2023)

(Source: Bloomberg Finance, LP)
Adjusted Retail & Food Services Sales Total SA

- **Average:** 371.18
- **High:** 705.3 (09/30/2023)
- **Low:** 163.72 (03/31/1992)

Debit Balances in Customers Securities Margin Accounts

- **Average:** 386289.14
- **High:** 935862 (10/01/2021)
- **Low:** 102842 (04/01/1997)

(Source: Bloomberg Finance, LP)
(Source: Bloomberg Finance, LP)
Inventory/Sales Ratio: Total Business

- Low: 1.24 (03/31/2011)
- High: 1.74 (04/30/2020)
- Average: 1.41

Census Bureau US Private Construction Spending Nonresidential SA

- Average: 334037.33
- High: 724130 (12/31/2023)
- Low: 144221 (04/30/1993)

(Source: Bloomberg Finance, LP)
Roughly Coincident Indicators

May 2024

US Labor Force Participation Rate SA

Date

Percent

Average: 64.96
High: 67.3 (01/31/2000)
Low: 60.1 (04/30/2020)

Conference Board Coincident Manufacturing and Trade Sales

Date

Millions

Average: 1016184.75
High: 1536000 (02/29/2024)
Low: 518924 (12/31/1982)

(Source: Bloomberg Finance, LP)
(Source: Bloomberg Finance, LP)
US CPI Urban Consumers Less Food & Energy YoY NSA

Average: 3.36
High: 13.5 (06/30/1980)
Low: 0.6 (10/31/2010)

US Manufacturing & Trade Inventories Total SA

Average: 1260.05
High: 2567.0 (02/29/2024)
Low: 465.25 (03/31/1980)

(Source: Bloomberg Finance, LP)
US Commercial Paper Placed Top 30 Day Yield

- **Average:** 2.26%
- **High:** 6.62% (06/30/2009)
- **Low:** 0.04% (05/31/2021)

**Census Bureau US Private Construction Spending Nonresidential SA**

- **Average:** 334037.33
- **High:** 724130 (12/31/2023)
- **Low:** 144221 (04/30/1993)

*(Source: Bloomberg Finance, LP)*
## Capital Market Performance

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Short Name</th>
<th>%1M</th>
<th>%3M</th>
<th>%1YR</th>
<th>3 Year Annualized</th>
<th>5 Year Annualized</th>
<th>10 Year Annualized</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPR</td>
<td>S&amp;P 1500 Composite Index</td>
<td>-2.72%</td>
<td>+4.63%</td>
<td>+19.80%</td>
<td>7.3694</td>
<td>13.0381</td>
<td>12.7247</td>
</tr>
<tr>
<td>SPXT</td>
<td>S&amp;P 500 Total Return</td>
<td>-2.59%</td>
<td>+5.19%</td>
<td>+22.51%</td>
<td>7.9175</td>
<td>13.4664</td>
<td>13.0384</td>
</tr>
<tr>
<td>SPX</td>
<td>S&amp;P 500 INDEX</td>
<td>-2.69%</td>
<td>+4.81%</td>
<td>+20.61%</td>
<td>7.8980</td>
<td>13.4479</td>
<td>13.0228</td>
</tr>
<tr>
<td>MID</td>
<td>S&amp;P 400 MIDCAP INDEX</td>
<td>-3.16%</td>
<td>+4.14%</td>
<td>+12.81%</td>
<td>2.8902</td>
<td>9.4419</td>
<td>10.183</td>
</tr>
<tr>
<td>RTY</td>
<td>RUSSELL 2000 INDEX</td>
<td>-4.04%</td>
<td>+1.00%</td>
<td>+8.21%</td>
<td>-3.5788</td>
<td>5.8258</td>
<td>7.7449</td>
</tr>
<tr>
<td>SXXP</td>
<td>STXE 600 (EUR) Pr</td>
<td>-0.84%</td>
<td>+6.22%</td>
<td>+6.63%</td>
<td>7.4763</td>
<td>8.4337</td>
<td>7.9483</td>
</tr>
<tr>
<td>TLT US</td>
<td>ISHARES 20+YR TR</td>
<td>-4.13%</td>
<td>-5.29%</td>
<td>-14.75%</td>
<td>-11.4684</td>
<td>-3.9327</td>
<td>0.9770</td>
</tr>
<tr>
<td>QLTA US</td>
<td>ISHARES AAA - A</td>
<td>-2.00%</td>
<td>-2.95%</td>
<td>-3.30%</td>
<td>-3.4129</td>
<td>0.4643</td>
<td>2.0750</td>
</tr>
<tr>
<td>CRY</td>
<td>TR/CC CRB ER Index</td>
<td>+2.91%</td>
<td>+11.35%</td>
<td>+5.98%</td>
<td>15.0477</td>
<td>9.5401</td>
<td>-0.4995</td>
</tr>
<tr>
<td>XAU</td>
<td>Gold Spot $/Oz</td>
<td>+10.32%</td>
<td>+17.28%</td>
<td>+19.32%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>XAG</td>
<td>Silver Spot $/Oz</td>
<td>+13.29%</td>
<td>+24.78%</td>
<td>+11.61%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ILMBNAVG</td>
<td>Bankrate 30Y Mortgage Rates Na</td>
<td>+4.07%</td>
<td>+5.71%</td>
<td>+7.70%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ILMINAVG</td>
<td>Bankrate 15Y Mortgage Rates Na</td>
<td>+3.93%</td>
<td>+6.83%</td>
<td>+11.51%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MB301ARM</td>
<td>5 Year ARM</td>
<td>+2.19%</td>
<td>+6.19%</td>
<td>+17.27%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ILA3NAVG</td>
<td>Bankrate 30Y Fixe Mtg Refis Na</td>
<td>-0.38%</td>
<td>+1.82%</td>
<td>+12.99%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
China’s Economic Facade is Cracking

Samuel Gregg
(Friedrich Hayek Chair in Economics and Economic History)

Not so long ago, commentators across the political spectrum were warning us that China’s economy was set to surpass America’s. The United States needed, one Senator claimed, “a 21st -century pro-American industrial policy,” to ward off this existential threat.

Such rhetoric was reminiscent of the late-1980s, when a slew of books appeared to warn Americans that, unless the United States adopted Japanese-like industrial policy (government intervention that shifts resources toward a particular sector or industry), it was doomed to be economically dwarfed by a country which America had militarily crushed four decades earlier.

Yet in 1990, Japan’s economy began entering its “Lost Decade” of stagnation. While that owed much to seriously flawed monetary policy, it also resulted from extensive government interventions into the Japanese economy via industrial policy: a point conceded by no less than Japan’s finance ministry in 2002.

Similar patterns may be manifesting themselves in China today. The shine is definitely off China’s economy, and many of Beijing’s economic dilemmas have resulted from the Communist regime’s dirigiste policies.

The biggest time-bomb confronting Beijing is its self-inflicted demographic disaster. Thanks to the one-child policy pursued between 1980 and 2016, China now faces all the complications associated with an upside-down demographic pyramid, in which an increasingly elderly population is supported by a shrinking pool of younger people.

That means ever-accelerating spending on pensions, welfare, and healthcare which will steadily crowd out investment in things like research and development, infrastructure, and defense. No wonder Beijing is now urging families to have three children. The trouble is that once demographic patterns are set in place, they are hard to shift. Consequently, as the foreign policy scholar Ryan Hass notes, China is now “at risk of growing old before it grows rich.”

Dismal demographics isn’t the only challenge with which China must grapple. The country is reaping the whirlwind of conscious decisions on Beijing’s part over the past 15 years to embrace more state-centric economic policies.

Take, for instance, China’s much touted Belt-and-Road Initiative (BRI). Since 2013, Beijing has sought to systematically promote and invest in infrastructure projects around the world, particularly in countries China considers geopolitically significant.

From its beginning, however, BRI has been characterized by runaway costs: so much so that, as early as 2015, state-run Chinese banks started reducing their exposure to BRI while Chinese commercial banks began trying to avoid it altogether. There is also evidence that BRI has long been marred by corruption on the part of those Chinese officials responsible for directing it.

Such problems, however, are to be expected when the government plays a heavy-handed role in directing investment — a process which steadily accelerated in China after Xi Jinping came to power in 2012. This has produced widespread misallocations of capital across the economy as a result of state-controlled banks lending to inefficient and zombie state enterprises.

Chinese state officials have even acknowledged that Beijing wasted at least $6 trillion on unsuccessful investments between 2009 and 2014. That makes it unsurprising that the IMF’s 2021 Article IV Consultation report on China concluded that Chinese state-owned businesses were, on average, only eighty percent as productive as private companies. This, the IMF report stated,
had played a significant part in China’s ongoing productivity decline since the late-2000s.

A related problem is China’s aggressive use of industrial policy, especially since the early-2010s, in the form of subsidies, direct state investments, and cheap loans. The goal has been to try to bolster growth in sectors like advanced manufacturing, technology, the service sector, infrastructure, and agriculture.

Naturally if you throw enough money at any given economic sector, you will get some results. But Scott Lincicome and Huan Zhu’s extensive analysis of industrial policy in China shows massive failures in areas like semiconductors, 3G mobile technologies, domestic aircraft, and automotive manufacturing. The same policies have also contributed to growing corruption in many economic sectors, including China’s highly subsidized R&D sector.

These and other trends are making foreign investors nervous. This brings us to yet another problem facing China’s economic policymakers.

Inbound foreign direct investment in China has been falling now for two straight years. It is now at its lowest level since 1993. This development reflects a complex relationship, from trade tensions to unease about Beijing’s intentions vis-à-vis Taiwan.

Decreasing confidence among foreign business leaders about China’s future economic prospects also underlies this foreign investment downturn. The European Union Chamber of Commerce in China’s 2023 Business Confidence Survey, for instance, reported “a significant deterioration of business sentiment.” More specifically, “64 percent of respondents reported that doing business in China became more difficult in the past year, the highest on record;” “11 percent of respondents have shifted existing investments out of China;” “8 percent have taken the decision to move future investments previously planned for China elsewhere;” and “one in ten report they have already shifted, or plan to shift, their Asia headquarters (HQ) or business unit HQ out of Mainland China.”

“Uncertainties in China’s policy environment,” according to the Survey, were central to this deteriorating confidence. Foreign businesses are anxious about growing ambiguity concerning what Beijing will allow foreign businesses to do in China. This uncertainty has surely been exacerbated by the fact that China’s National Bureau of Statistics is becoming progressively more selective about what economic data it releases, and regularly delays the release of other relevant data. In August 2023, China simply stopped releasing information about its youth unemployment rate.

Do these trends indicate that China is about to lapse into Japanese-style 1990s stagnation? It is far too early to tell. They do, however, indicate that American policymakers — whether their focus is national security or trade — should recalibrate their approach to Beijing and avoid getting locked into a narrative which assumes that China is an unstoppable economic colossus. Put simply, the evidence suggests that it is not.

– March 25, 2024
Industrial Policy’s Short-Run Booms Risk Long-Term Failures

Ryan M. Yonk  Jacob Bruggeman  
(Senior Research Faculty)  (Graduate Fellow)

New York state’s GlobalFoundries (GF) received news of $1.5 billion in direct funding and $1.6 billion in loans from the US Department of Commerce. The funds will be used to renovate fabrication facilities in Malta, NY (an hour’s drive from AIER’s campus in Great Barrington) and Essex Junction, VT, and to build a new Malta facility that will make chips for cars, planes, defense systems and artificial intelligence. Politicians and the chip industry claim government funding will spur an additional $12 billion investment from GF and create over 1,500 manufacturing jobs and roughly 9,000 construction jobs over the next decade. The deal has been praised by local state and federal officials as being a major boon to the economy of the region.

The investment promises to be a boon for GF and its employees in the short-run. But this latest example of government backing of American chipmaking offers an opportunity to weigh the benefits and costs of subsidies in our society at the local, national, and international level.

Funding for GF comes from the CHIPS Act, signed into law by President Biden in August 2022, which aims to make investments that strengthen American access to semiconductors, a crucial component in almost all electronic technologies used today. While New York state offered an additional $575 million in tax credits, the majority will come from the Department of Commerce. GF is the latest domestic chip manufacturer to receive subsidies from the slow rollout of CHIPS funding. GF is the third awardee, following Microchip Technology and BAE Systems, Inc.

In the short run, subsidized investments in companies like GlobalFoundries appear to reshore supply chains, create jobs, stimulate the economy, and secure American access to critical technology. But the positive short-run effects of the CHIPS Act and other forms of contemporary industrial policy risk distracting us from ensuring cooperative exchange and long-run prosperity in the global economy.

Arguments for these subsidies usually stem from concerns about the effects of supply shocks and geopolitical risks created by an assertive China. The pandemic alone caused a major disruption in the flow of semiconductors in the global economy. Disruptions of this kind can be devastating, because chips, as experts like Chris Millier observe, are the “new oil.” Because of this, a growing number of politicians, academics, and journalists call for investment in the industry to shore up national security and preserve advantages for American companies on the cutting edge of new developments in nanotechnology, clean energy, quantum computing, and AI.

With this massive amount of government support, GF will likely weather the uncertainty it faces in the marketplace. With the waning pandemic-era supply-chain woes, a slow down in tit-for-tat trade-war measures with China, and industry-wide growth on the horizon, firms like GF have a leg up on their non-subsidized competitors to reap the benefits of another boom in the silicon gold rush and claim a bigger share of the global market.

The honeypot of federal subsidies is sweet indeed. If you only listened to those pushing for the subsidy you might believe it’s all upside. But, for all GlobalFoundries promises to drive growth in cities like Albany, its place in the global semiconductor industry is all but certain. In fact, despite GF’s growth through the early 2020 to 2022, its share of global industry revenue actually declined by 1.7 percent over the same period. Despite new investments, and these subsidies, US chipmaker manufacturing capability will hover around a paltry 8 percent of global capacity for years to come. Real questions remain about whether GF’s promises of economic and job growth will actually occur. Meanwhile, the resources we
allocate to chip production are diverted from all other possible voluntary, commercial opportunities.

On top of the uncertainties faced by firms like GF, reports suggest that a lion’s share of CHIPS funding will flow to Intel. As Intel engages in corporate jockeying for an additional $3.5 billion to create a “secure enclave” for the manufacturing of chips with highly sensitive technology. This constitutes an additional 10 percent of CHIPS funds — a plump cherry on top of the $10 billion Intel has all-but-secured. As economists and political scientists dating back to the 1970s argue, subsidies are rife with opportunities to already-giant firms, like Intel, to extract special privileges and “rents” from the government.

Small firms like GF will enjoy morsels, but legacy firms like Intel — who are already more immune to market shocks and decline — make subsidies into a buffet.

Industrial policy and investments in companies like GlobalFoundries might yield desirable effects in the short run. But subsidy programs often help the big get bigger. To wit, they are no substitute for serious thinking about how to guarantee economic prosperity in a globalized world where trade leads to prosperity. Indeed, as economic wisdom going back to Adam Smith dictates, the world is better off when we build open bazaars, not walled gardens.

– March 28, 2024
Inflation Remained Elevated in February

William J. Luther
(Director, AIER’s Sound Money Project)

When inflation picked back up in January 2024, many commentators described it as more noise than signal. The latest data from the Bureau of Economic Analysis (BEA) casts doubt on that view. The Personal Consumption Expenditures Price Index (PCEPI), which is the Federal Reserve’s preferred measure of inflation, grew at a continuously compounding annual rate of 4.0 percent in February. The PCEPI has grown at an annualized rate of 3.3 percent over the last three months and 2.5 percent over the last six months. Prices today are 8.7 percentage points higher than they would have been had they grown at an annualized rate of 2.0 percent since January 2020.

Core inflation, which excludes volatile food and energy prices, also remained elevated. Core PCEPI grew at a continuously compounding annual rate of 3.1 percent in February. It has grown at an annualized rate of 3.5 percent over the last three months and 2.9 percent over the last six months.

At the press conference following the Federal Open Market Committee (FOMC) meeting in March, Federal Reserve Chair Jerome Powell told reporters the FOMC was proceeding cautiously:

*We didn’t excessively celebrate the good inflation readings we got in the last seven months of last year. We didn’t take too much signal out of that. What you heard us saying was that we needed to see more. That we could, that we wanted to be careful about that decision. And we’re not going to overreact as well to these two months of data, nor are we going to ignore them.*

That would seem to imply the FOMC does not plan to cut its federal funds rate target soon.
Governor Christopher Waller echoed Powell’s view in a talk at the Economic Club of New York earlier this week:

*It is appropriate to point out that a month or two of data does not necessarily indicate a trend, and there are good reasons to think that progress on inflation will be uneven but likely to continue down toward 2 percent. At the same time, monetary policy is data driven, and I do want to take it into account when formulating my economic outlook. While I don’t want to over-react to two months of data, I do think it is appropriate to react to it.*

Waller said “there is no rush to cut the policy rate.” Given the latest data, he thinks “it is prudent to hold this rate at its current restrictive stance perhaps for longer than previously thought to help keep inflation on a sustainable trajectory toward 2 percent.”

The median FOMC member continued to project three 25-basis-points cuts at the March meeting. But many FOMC members revised their projection up. In December 2023, there were five below-median projections for the federal funds rate this year. Now, there’s only one.

Market participants continue to expect three cuts this year — and that those cuts will begin in the first half of the year. But they have adjusted the odds. The federal funds futures market puts the odds that the Fed will hold its target rate at 5.25 to 5.5 percent through June at just 36.4 percent, up from 24.4 percent one week ago.

Fed officials look prescient at the moment. They held their federal funds rate target high when low inflation readings led others (myself included) to call for cuts. The months ahead will determine whether that assessment stands.

– March 29, 2024
Preserve Architectural History with Incentives, Not Bans

Jason Sorens  (Senior Research Fellow)  Thomas Savidge  (Research Fellow)

Long Island, New York is best known for its beaches and lavish real estate. Anyone who visits the island can see the clear inspiration for stories like The Great Gatsby and Jaws. One lesser-known attraction is the McDonald's in the village of New Hyde Park. Last year Architectural Digest listed the New Hyde Park McDonald’s as one of “The 13 Most Beautiful McDonald’s in the World.”

Known locally as the McMansion, this McDonald’s is a two-story historical landmark dating back to 1795. This Georgian-style mansion is certainly fit for a Gatsby party. But the way this McDonald’s came about – regulation – offers a lesson in how to do architectural preservation, and how not to do it.

When McDonald’s purchased the property, in 1985, the building had fallen into serious disrepair. The current owner and operator, Jack Bert, noted, “Prior to 1991, it was a dilapidated house in a very much vacant lot.”

McDonald’s tried to develop the property, but locals pushed back against it. After a three-year legal battle, the property was granted a historic designation. McDonald’s then reached an agreement with the village to renovate the building such that it could function as a McDonald’s franchise while maintaining a historic appearance. The result is the McMansion that is still operating today.

While this story seems to have had a happy ending, historical landmarking can have wider negative consequences in other cases. And even in this one, the three-year legal battle looks like a regrettable waste of resources in light of a better alternative: purchasing landmark status voluntarily from owners.

In most states, historic districts are created by zoning ordinances and have the power to regulate development and renovations. Some states even allow local governments to landmark an individual property against the will of the owner.

In many cases, locals who oppose new housing use historic landmarking strategically to block redevelopment. In Denver, Colorado, activists blocked the construction of an eight-story apartment building downtown by landmarking a 1960s-era diner. In Seattle, they nearly stopped the redevelopment of a derelict Denny’s by landmarking it. Phoenix, Arizona has blocked the redevelopment of an old industrial laundry even though the owners say it would cost $10 million just to bring it up to code.

Historic preservation isn’t a bad goal, but when preservationists landmark properties over the strenuous objections of property owners, it’s almost always a bad idea.

Owners already have strong reasons to preserve historic structures. The federal government provides generous tax incentives for the preservation and rehabilitation of historic buildings. In addition, New York offers both tax credits and direct grants to owners of historic properties. For example, a historic property can qualify for a 20 percent NYS homeowner historic tax credit or 20 percent NYS historic tax credit for income producing property, plus the 20 percent federal rehabilitation tax credit for income producing properties. In addition, the property can apply for a Preserve New York grant to cover up to 80 percent of restoration project costs. In FY 2024, the Office of Parks, Recreation and Historic preservation was allocated $200 million in capital funding to “restore and repair historic sites and parks.”

Ultimately, though, these tax incentives are paid for with tax dollars. The owners of historic properties get to enjoy the benefits of tax credits while taxpayers, many of whom live nowhere near the historic property, must bear the cost in the form of higher taxes to fund these programs.

Beyond the tax incentives, historic designation can raise property values. National Historic Landmarks enjoy a premium when they go on sale. A study of
Baton Rouge homes that have received local historic designations finds that they are worth more too. Notably, these designations raised property values in part because they come with no development restrictions.

Studies of historic regulations that do restrict redevelopment typically show mixed effects on property values. For instance, an influential study of New York City found that historic district designations only raised property values where residential density restrictions were not binding. In other words, when you force a property owner to keep a historic building even when it would be much more profitable to build homes there, you destroy property value.

The biggest problem with historic landmark regulations is a knowledge problem. We don’t know how much the owner of a property values alternative uses of that property. If a local government instead negotiated with the owner, we could properly evaluate whether the benefits of historic status outweigh the costs that must be paid to purchase the right. Without that price signal, we risk destroying lots of value. In some cases, the benefits of redeveloping a historic site might be huge.

We should be especially reluctant to ban new housing in places that are suffering from a shortage of it. While New Yorkers in general are fleeing the state, much of New York City and Long Island remains a high-demand area. It’s no surprise that Governor Kathy Hochul and the legislature have been considering state measures to promote private-sector home-building. Removing government from the process by changing dated zoning regulations is the best path forward to solving the housing shortage. A small piece of the puzzle should be historic landmarks and district reform.

Instead of letting local governments ban redevelopment of allegedly historic structures more or less at will, the state could require them to negotiate for the development rights. An even better system might be to leave the entire issue up to buyers and sellers in the free market, especially since, as we’ve seen, property owners can enjoy a boost to property value from preserving a certified historic site. In addition, adjust the tax code so that properties with a “historic” designation are not favored over others. The first step would be to stop putting all of the burden of historic preservation on property owners, who have every right to try to make an honest living on their land. 

– April 9, 2024
Assessing Bidenomics: The Fatal Conceit of National Commercial Policy

Nikolai G. Wenzel
(Associate Research Fellow)

The advantage of being an economist is that I am utterly disinterested in partisan politics. I am, however, very interested in sound economics and respect for the limited federal powers enumerated in the US Constitution. In the past, I have chided both the Trump administration and the Biden administration for their shenanigans.

The Economist recently ran a piece about the prospects for four more years of Bidenomics. Should Joe Biden win a second term, Bidenomics could take one of two faces, depending on the congressional majority. I will set aside the politics, and the likelihood of President Biden’s re-election and control of one or both houses – and thus the expected magnitude of Bidenomics over the coming years.

Regardless of November 2024, Bidenomics is already with us. On the fiscal side, the three big bills — the Infrastructure Investment and Jobs Act of 2021, the Inflation Reduction Act of 2022 ($900 billion) and the CHIPS Act of 2022 — have contributed to pushing the national debt above 130 percent of GDP.

But the bigger damage of Bidenomics comes from the regulatory side, and the federal government’s continuing run for the “commanding heights” of the economy. That expression comes from a 1922 speech, in which Lenin called for Communist party control of key industries (then heavy manufacturing, energy, and transportation) in the new Worker’s Paradise.

The goal remains the same, even if the industries have changed: today, they are healthcare, education, housing, with the recent addition of manufacturing and the green industry.

Bidenomics has five pillars:

1. Strengthening workers, especially through unions and regulation. President Biden was the first sitting president to join a picket line, and his Department of Labor is working aggressively to restrict the gig economy, by classifying certain contractors as employees.

2. Increasing social spending, especially on early childhood education.

3. Stricter enforcement of antitrust laws.

4. Federal investment in strategic areas, especially infrastructure and the environment.

5. Increased taxes on corporations and “the wealthy” to finance it all.

There are three basic problems with Bidenomics: (1) it is unconstitutional, (2) it is misguided, and (3) it is self-defeating.

First, the Constitution. I probably sound like a broken record, as I constantly harp on about constitutional authorization in everything I write. But I think advocates of economic freedom must repeat this over and over again. The US constitution enumerates only about a dozen legislative powers to Congress in article I, section 8. The legislature passes the laws, and the executive enforces them. Even with a generous reading of the patent clause in article 1, section 8, the Constitution does not give Congress — and much less the President — the authority to engage in national commercial policy.

Second, basic economics. Bidenomics is an example of what economist F.A. Hayek called “the fatal conceit”, or the notion that the state can engineer the economy. Prices, through the market process, signal relative scarcity, and allow for rational allocation of scarce resources among competing wants. State efforts are doomed to failure. And, yet, at its base, Bidenomics is a claim that the White
House can do better than the free market. Every dollar controlled by Washington is a dollar that is not controlled by entrepreneurs and consumers, with their local knowledge and incentives for proper stewardship. As of 2023, the federal government spent about 24 percent of GDP, with state and local governments spending another 15 percent. If we add to that the estimated 10 percent of GDP spent on regulatory compliance, roughly 50 cents out of every dollar of economic activity in the US is controlled by a government, rather than an entrepreneur, consumer, or investor. That is bad news for efficiency and growth. It’s also bad news for liberty.

Third, Bidenomics is self-contradictory. Countries with more economic freedom grow faster than countries with less; yet Bidenomics claims that it can magically stimulate the economy with bigger government. Bidenomics preaches greater competition, while also suffocating the economy with increased spending, more regulation, and greater union power. Bidenomics would double down on a half century of failed federal investment in K-12 and higher education by increasing federal involvement in early-childhood education. And the architects of Bidenomics seem to forget that the market solves social problems well before the Feds muck things up. Poverty in the US had been declining rapidly after the war economy and the worst excesses of the New Deal, well before LBJ’s Great Society (and has not fallen since). Air in the US was already getting cleaner before the Clean Air Act. Markets solve problems.

To these three problems, we can add a fourth: Bidenomics relies on a buffet of lies for marketing purposes. Three examples are most notable.

First, Bidenomics would finance its folly by raising taxes, so that “the wealthy” pay their fare share. But the top 1 percent of taxpayers already pay 42 percent of total tax revenue; the top 5 percent pay 63 percent, and the top 10 percent pay 74 percent of total revenue. Setting aside the economic distortions of higher taxes, Americans with higher income are already paying more than their “fair share.”

Second, a key claim of Bidenomics is a decreased deficit; while this is technically true, it’s not quite accurate... federal debt is still increasing, if at a (slightly) decreasing rate.

Third, the White House website gloats that “more people are working today than at any point in American history.” But, the Bureau of Labor Statistics reports something different. As of December 2023, the labor force participation rate (the percentage of the able-bodied, adult, civilian population actually working) stood at a mere 62.5 percent. From 2003 to 2009, it was about 66 percent. The rate started dipping with the Great Financial Crisis, down to about 63.3 percent in February 2020. Then COVID hit, and the country hit a low of 60.1 percent in April 2020. In sum, the labor force participation rate is still below pre-COVID numbers. The Biden administration is probably cooking the numbers by focusing exclusively on the numerator (the number of people working), whilst ignoring the denominator (including increases in population and those who have given up looking for work).
Speaking of fudging, economist Bill Shugart pierces the statistical veil of the latest jobs report. The sector with the most growth is the health sector, because of an aging population and government subsidies that inflate demand. Number 2 is government (federal, state, and local). At best, such jobs are a zero-sum game that simply redistributes resources; at worst, they are a negative-sum game, as busybody bureaucrats gum up the economy through regulation. Much as Bidenomics is singing its own praises, one is reminded of the economist Frédéric Bastiat’s warning of what is seen, and what is not seen:

> You compare the nation to an arid land and tax to bountiful rain. So be it. But you should also ask yourself where the sources of this rain are, and if it is not taxes themselves that absorb the humidity from the earth and dry it out.

> You ought to ask yourself as well if it is possible for the earth to receive as much of this precious water through rain as it loses through evaporation.

Bidenomics is bad news for the American economy and constitutional system. It is not just old-fashioned tax-and-spend policy, but an attempt to reshape the economy entirely.

It is high time for friends of liberty to stand athwart national commercial policy and yell STOP!

– April 2, 2024
Fiscal Federalism Turned Upside-Down

Peter C. Earle  
(Senior Research Fellow)  

Thomas Savidge  
(Research Fellow)

A recent study from the American Enterprise Institute (AEI) found that many states misused federal aid related to the pandemic. Instead of using funds for projects related to healthcare, education, and infrastructure, state politicians used the lion’s share of federal funding for the general fund and public pensions.

Aside from the blatant misuse of federal dollars, this study highlights another important issue: state and local government dependence on funding from the federal government. The more states are dependent on DC, the more control DC has over state and local fiscal affairs. When DC inevitably cuts funding to the states, fiscal crises are bound to occur.

AEI’s study found that state government revenues and spending “increased by around 70 cents per incremental windfall dollar of committed federal funds by 2022.” States where public employees had the most influence over pension fund boards saw the largest increases in pension contributions with those federal dollars.

While this misuse of funds is no surprise to many of the critics of federal pandemic aid, it should be shocking to the average American. Despite the US Treasury explicitly banning the use of federal funds for pensions and tax cuts, it still occurred. Evidence from the research shows “no observed increases in liquid cash positions and essentially full spending of received aid.”

In this case, states must obligate federal money from the American Rescue Plan (ARPA) by December 31, 2024. They then have until December 31, 2026, to spend it or give it back to the federal government. Incentives matter, and in a case of “use it or lose it,” states will find ways for the money to be spent. The latest data show that the average state gets 38 percent ($21.6 billion) of its revenue from federal funds, the largest single category. Expenditures funded by general fund revenue make up the second largest category of expenditures ($20.9 billion). Other funds include revenue sources that are restricted by law for specific functions or activities (gas taxes for a transportation fund, tuition and fees for higher education, or provider taxes for Medicaid) make up the third largest category ($13.5 billion). Bonds make up the smallest category of expenditures ($1 billion), although bond types included in the calculations vary by state.

State Budget Expenditures (Capital Inclusive) by Source, 2022 (50 State Average)

Unfortunately, this is not a new development. Since 1991 (the earliest data available), federal funds have steadily increased as a share of total expenditures at the state level. The chart below shows that the largest increases in federal funds to the states occurred immediately following recessions. Out of fear of losing revenue, state officials seek aid from the federal government, which is more than happy to oblige. It is a manifestation of the Public Choice concept “the ratchet effect,” where federal spending spikes immediately after a recession or emergency, then lowers when the crisis subsides, but never down to pre-crisis levels.
State Budget Expenditures (Capital Inclusive) by Source as a Percentage of Total Expenditures, 1991-2023

*2023 totals are projected
Note: Shaded areas indicate periods of recession
Source: Authors’ Calculations, National Association of State Budget Officers State Expenditure Report 2023 and Historical Data

The National Association of State Budget Officers (NASBO) also projects that 2023 data will show that general fund expenditures will exceed federal fund expenditures for the first time since 2020, yet it is not expected to return to 2019 levels. With federal money from ARPA still left to spend, federal funds will likely still make up at least a third of the average state budget.

Like so much else in government spending, the trend is unsustainable. The most recent Financial Report of the United States Government concludes by saying that “[t]he projections in this Financial Report indicate that if policy remains unchanged, the debt-to-GDP ratio will steadily increase throughout the projection period and beyond, which implies current policy under this report’s assumptions is not sustainable and must ultimately change” (emphasis added).

That untenability, furthermore, has not gone unnoticed. In August 2023 Fitch Ratings downgraded the US credit rating from AAA to AA+, the second following the August 2011 lowering by Standard and Poor. In November 2023, Moody’s Investment Service changed the US credit outlook to negative. Lower credit ratings threaten higher interest costs on an already massive amount of government debt. These rising costs and debt will force lawmakers in Washington to make some difficult cuts to spending. When the time comes to make painful cuts, politicians in DC will cut funding to the states, expect state leaders to deal with the funding issues, and let them take the blame for the inevitable tax hikes and spending cuts.

Most US states ended FY 2021, 2022, and 2023 with budget surpluses. Many states took the opportunity to focus on tax relief, switching from graduated income taxes to flat income taxes. While the flat tax revolution helped many Americans keep more of their hard-earned money, the gains will be for naught if states do not properly control spending.

The best way for states to rein in spending is by enacting constitutional rules at the state level such as the Taxpayer’s Bill of Rights (TABOR) in Colorado. TABOR limits the growth of government to the maximum growth of population plus inflation, requires any taxes collected in excess of that limit to be refunded to taxpayers with interest, and requires voter approval before new taxes. This rule also applies to local governments, so the state cannot grow government by way of unfunded mandates on local governments. TABOR, however, does not apply to federal funds given to Colorado.

Another example is provided by Utah, which established the Financial Ready Utah program in the wake of the Great Recession. This package of bills requires state agencies to have emergency plans in place for anywhere between a 5-percent to 25-percent reduction in funding and requires state agencies to seek legislative approval before applying for federal funds.

State-level constitutional limits on taxes and spending provide greater protection from reckless government spending than relying on the “right” candidates to win elections or the “right” bureaucrats to be appointed. When government actors are bound by strong institutional constraints regarding political instincts and incentives toward reckless spending, already-overtaxed citizens needn’t rely on wishful thinking.

– March 25, 2024
I like to entertain seriously views I disagree with, but it’s hard to describe a new hypothesis on the left about the United States’ economic dynamism relative to Europe’s as anything other than “cockamamie.” The claim from Rogé Karma in The Atlantic is that “the US economy is doing spectacularly well,” and the reason for this performance is that America is “stealing from Europe’s big-government, welfare-state playbook.” By spending $5 trillion on pandemic relief, but letting people lose their jobs, so the argument goes, the US shuffled the labor market and got people into better, more productive jobs:

This labor-market reshuffling, argues Adam Posen, the president of the Peterson Institute for International Economics, is the most plausible explanation for why American workers experienced a sudden spike in productivity in the second half of 2023 — one that didn’t occur in Europe. “The pandemic response convinced people that government ultimately had their back,” Posen told me. ‘And that allowed people to take bigger risks than normal.’

Let’s look at the evidence. If this theory is right, then productivity should have spiked just after Americans returned to work. The figure below plots percent change over the previous year in real output per hour, from the first quarter of 2019 to the fourth quarter of 2023, alongside the prime-age employment rate. We do indeed see productivity increasing in the latter half of 2023.

But what’s happening with the employment rate? It has recovered almost all of its pandemic losses by March 2022. Total quits also peaked in April 2022, implying that the job market reshuffling started slowing down then. It’s pretty arbitrary to attribute the productivity growth in 2023 to job reshuffling, when the latter process was more than 90 percent complete a year and a half before. More likely, falling inflation is the dominant reason productivity grew in late 2023.

The other piece of evidence that fits poorly with Karma’s claim is the fact that the US has been more dynamic than Europe for a long time. The figure below plots real GDP growth (percentage change from a year ago) for both the US and the Eurozone.

How can anyone look at these numbers and say that pandemic spending is what caused the US to outpace Europe? From Q4 2017 through Q1 2021 — 14 consecutive quarters — US growth beat the Eurozone’s. Then, from Q2 2021 through Q4 2022, with the sole exception of two quarters, the Eurozone outpaced the US. Only in the four quarters of 2023 has the US again taken a lead on the Eurozone. A more natural reading is that the US generally has higher growth than the Eurozone, but something happened in 2021 and 2022 to disrupt that usual pattern. One could as easily make the case that large federal deficits and inflation hurt the US relative to Europe.
Taking a step back, it’s hard for me to reconcile this new “social democratic” interpretation of the pandemic with the way that social democrats have interpreted, well, just about everything else. They want to say that mass unemployment was good this time because it allowed people to quickly find new jobs where they were more productive. That sounds a lot like the “liquidationist” perspective that influenced the Fed in the late 1920s as it crushed the stock market boom. Do Karma and Posen think that the Fed should be celebrated for having responded too late to the Great Recession that hit in 2008? That we should welcome a big financial crisis now and then? Was the Fed justified in letting the US slip into depression in the early 1930s?

Now, presumably, they would respond that mass unemployment is only good if people can get rehired quickly, which wasn’t the case during the Great Depression, nor the Great Recession. Still, the logic suggests that the workers would be better off if government periodically encouraged employers to fire many of their workers to help “reshuffle” the labor market.

On theoretical grounds, the hypothesis makes little sense either. Do businesses really keep around workers who are making a lot less than their marginal product for a long time? Do people really give up on growing in their career once they have a job?

The new “reshuffling” thesis of American recovery doesn’t make much sense on the evidence or economic theory. It serves a convenient political purpose in helping to justify massive federal stimulus that otherwise looks like a costly waste, ahead of an election, but that’s about all that can be said for it.

For sources of American economic recovery, let’s look instead at the belated recovery of macroeconomic stability, which has allowed America’s natural dynamism to come through.

– April 1, 2024
EPA Phase Out of Gas-Powered Cars Has Ominous Historic Echoes

Jon Miltimore
(Senior Writer)

The Biden administration last week rolled out new emissions regulations that the New York Times said will “transform the American automobile market.”

In what the paper called “one of the most significant climate regulations in the nation’s history,” the Environmental Protection Agency (EPA) is mandating that a majority of new passenger vehicles sold in America be hybrids or EVs by 2032.

The Biden administration and defenders of the policy argue that the EPA’s regulation is “not a ban” on gas-powered cars, since carmakers are not prohibited from producing gas-powered vehicles. Instead, automakers are required to meet a government-mandated “average emissions limit” across their entire vehicle line, to force them to produce more EVs and fewer gas-powered cars.

It’s a clever ruse in that it allows the Biden administration to use regulatory power to force automobile manufacturers off of gas-powered vehicles while denying that they are banning them.

Whatever one chooses to call the regulation, its purpose is clear.

“Make no mistake,” the Wall Street Journal noted. “This is a coerced phase-out of gas-powered cars.”

This might be music to the ears of those who see fossil fuels as evil, but economics and history suggest the White House’s plan to force Americans off of gas-powered cars could be a disaster.

What’s Holding Up EV Adoption?
A major reason why the White House is forcing this “transformation of the American automobile market” is that Americans aren’t voluntarily adopting EVs quickly enough to satisfy the White House.

Though Americans purchased more than a million EVs last year, that still represents less than 8 percent of total vehicle sales in the US. The government’s current target is 56 percent. (If the White House was serious about speeding up this transition, it might consider eliminating the 25 percent tariff on cars built in China — which accounts for some 60 percent of global EV sales — but that would be too easy.)

Despite massive subsidies encouraging consumers to purchase EVs, Americans didn’t buy them as rapidly as predicted, causing auto companies to pump the brakes. Ford recently announced it was halving production of its most popular EV, the F-150 Lightning. General Motors, the largest US automaker, and Toyota, the second-largest US automaker, followed suit, announcing significant reductions in EV production.

The weak demand for electric vehicles no doubt has several sources, but the BBC identified a few primary reasons, two of which appear over and over in consumer surveys: price and charging reliability.

Ford’s F-150 Lightning starts at $50,000. Its popular Mach-e starts at $40,000, and that’s after a recent $8,100 mark-down. GM’s top-selling EV, the LYRIQ, starts at $59,000. On average, EVs sell for about $5,000 more than similar gas-powered cars. And EV prices are going up, not down, researchers point out.

“In 2011, the inflation-adjusted price of a new EV was near $44,000. By 2022, that price had risen to over $66,000,” said Ashley Nunes, a senior research associate at Harvard Law School, in her testimony to Congress in 2023.

The second problem is that Americans have serious concerns about how they’ll charge their EVs. A 2023 survey conducted by the Associated Press-NORC Center for Public Affairs Research and the Energy Policy Institute at the University of Chicago found that 77 percent of respondents cited concerns about charging stations as a reason for not purchasing an EV.
This is not an irrational concern.

When Americans drive their gas-powered cars, they are not worried about where they’ll fill up when their fuel runs low. Gas stations are plentiful in the US and easy to find. Charging stations are another matter.

*Bloomberg* reported last year that, despite steady growth in recent years of EV charging stations, there is just one quick-turn electrical vehicle charge station in the US for every 16 gasoline stations.

Federal efforts to expand charging infrastructure, including $7.5 billion in new spending to build half a million stations, have been embarrassingly slow.

‘Subsidizing EVs With Profits From Gas-Powered Cars’

Since Americans are not voluntarily adopting EVs as quickly as the government would like, the EPA is trying to hasten the transition. This could be a disastrous move.

As the *Journal* noted, Ford last year lost nearly $5 billion on its EV business. Yet the company still managed to generate a $4.3 billion profit in 2023. It doesn’t take a math genius to deduce how this happened.

“[Automobile] companies are heavily subsidizing EVs with profits from gas-powered cars,” the *Journal* notes.

Forcing automobile companies to expand production of their least-profitable product lines at the expense of their best-performing ones is economic madness. It calls to mind collectivized agricultural policies in the Soviet Union, where central planners embraced the worst farming methods.

While Stalin’s collectivization of farms in 1929 was a massive failure that led to the deaths of millions, agriculture in the USSR of course continued during and after his lifetime. But two distinct sectors emerged: a tiny private sector that produced a bumper crop of food, and a massive collectivized sector that produced very little.

The late economist James D. Gwartney (1940–2024) explained that families living on collectives in the USSR were allowed to farm on small private plots (no more than one acre) and sell their produce in a mostly free market.

Historians point out that in the 1960s these tiny private farms, which accounted for just 3 percent of the sown land in the USSR, produced 66 percent of its eggs, 64 percent of the potatoes, 43 percent of its vegetables, 40 percent of meat, and 39 percent of its milk.

Gwartney and economist Richard Lyndell Stroup note that by 1980, private farms accounted for just one percent of sown land in the USSR, but a quarter of its agricultural output.

“The productivity per acre on the private plots was approximately 33 times higher than that on the collectively farmed land!” they wrote.

In a free-market economy, farmers within the Soviet Union would have been allowed to shift toward private production — just like US automakers today would be allowed to shift away from EVs until the industry becomes more profitable.

But… the Environment?

Supporters of the Biden policy are likely to respond that we have no choice but to transition to EVs because of climate change. There are several problems with this argument.

For starters, EVs are not the green panacea they seem to be. Electrical vehicles actually require a massive amount of energy and strip mining. Half a million pounds of rock and minerals have to be mined to build just one battery, on average. EVs require far more energy and cause far more pollution when they are manufactured than gas-powered automobiles.

“[I]t’s true that the production of a BEV (battery electric vehicle) causes more pollution than a gasoline-powered counterpart,” the *New York Times* admitted in a 2022 article headlined “EVs
Start With a Bigger Carbon Footprint. But That Doesn’t Last.”

If you weren’t aware that EVs cause more pollution on the production side than gas-powered cars, don’t be embarrassed; few do. It’s one of the dirty secrets of EVs: they start with an enormous carbon footprint. At a climate summit a few years ago, Volvo noted its C40 Recharge had to be driven about 70,000 miles before its total carbon footprint was smaller than the gas-powered version.

As the Times says, the footprint of EVs shrinks over time. But not as fast as many think. One big reason for this is that the bulk of the electricity produced in the US is produced by… you guessed it… fossil fuels. As the Energy Information Administration points out, fossil fuels generate about 60 percent of the electricity in the US, which means that most people charging their EVs are using electricity generated from fossil fuels.

Reducing that carbon footprint is also exacerbated by the fact that people tend to rack up fewer miles with EVs than gas-powered vehicles, which makes it more difficult to offset the large carbon footprint on the production side.

“[Our] data show that electric vehicles are driven considerably less on average than gasoline- and diesel-powered vehicles,” researchers at the Haas School of Business at the University of California, Berkeley noted in a 2019 study. “In the complete sample, electric vehicles are driven an average of 7,000 miles per year, compared to 10,200 for gasoline and diesel-powered vehicles.”

All of this helps explain why a 2023 Wall Street Journal analysis found that shifting all personal US vehicles to electric power would barely make a dent in global CO2 emissions, reducing them by less than 0.2 percent.

Who Chooses?

Forcing US automakers to expand their least-profitable autolines is backward economics. It puts automakers at risk, not to mention their workers and shareholders.

The higher profits automakers are reaping from gas-powered vehicles isn’t an accident. It’s a signal that consumers prefer them at the prices being offered, and heeding consumers is what separates capitalism from the failed collectivist systems of the past.

The Austrian economist Ludwig von Mises explained that in a free-market economy, it’s the consumers who ultimately call the shots, not the state or even the corporations. This idea is known as consumer sovereignty.

“The real bosses [under capitalism] are the consumers,” Mises wrote in Bureaucracy. “They, by their buying and by their abstention from buying, decide who should own the capital and run the plants. They determine what should be produced and in what quantity and quality.”

The real question here isn’t about which is better, gas-powered cars or EVs. It’s about who gets to choose.

By allowing unelected regulators to decide what kind of cars are built instead of consumers, the US is crossing an ominous line.

This kind of central planning failed miserably in the 20th century. Don’t expect it to be any different this time around.

– April 8, 2024
Another Dismal Tax Day: Can It Drive Fiscal Reform?

Vance Ginn  
(Associate Research Fellow)

April heralds two markers in Americans’ financial calendar. Neither brings joy. Their anguish reminds us of the dire need for fiscal reform before it’s too late.

The first day is Tax Day on April 15, when you must file taxes to the IRS. The other day is Tax Freedom Day on April 16. The latter is the 104th day of the year, which represents when Americans, on average, can stop working to pay taxes and start working to improve their own lives and further their economic goals. We work 30 percent of our days to pay government alone.

This stark division of the year into earning to pay for the government versus for oneself casts a revealing light on taxation’s burden. These dismal dates indicate an urgent need to overhaul the fiscal regime of excessive government spending that drives taxes higher.

The pain and uncertainty from an ever-changing federal progressive marginal individual income tax system with forced withholding and payment or refund later are destructive. These costs distort our ability to prosper.

Central to minimizing these burdens and distortions is for the federal government to spend less, thereby reducing the amount needed from taxes. And the tax system should be simplified by moving to a broad-based, flat-income tax. Eventually, we could eliminate income taxes and fund our significantly reduced spending with a broad-based, flat final sales tax, but politics too often takes precedence over prudence.

States without personal income taxes, such as Texas and Florida, often showcase stronger economic performance, underscoring the potential benefits of a consumption-based tax model. The Tax Foundation’s analysis shows that these states enjoy higher growth rates and attract businesses and residents alike, advocating for the efficiency of a less burdensome tax system.

Unlike taxes on income, a consumption tax better aligns with economic volatility and taxpayers’ decisions. It introduces a transparent, simpler tax system, starkly contrasting the current convoluted income tax code, thereby supporting more freedom to choose, increased savings, and faster economic growth.

But the looming uncertainty inevitably generated by temporary tax measures and seemingly endless, excessive government spending demands attention.

For instance, the individual income tax rate reductions, full-expensing, and other provisions of the Tax Cuts and Jobs Act (TCJA) of 2017 expire over the next year, creating a cloud of uncertainty. Moreover, the multi-trillion-dollar deficits from overspending result in further economic destruction because of higher interest rates and less investment.

The economic impact was notable, with the Congressional Budget Office reporting a surge in GDP growth following the TCJA’s implementation. But the uncertainty surrounding its future dampens long-term economic prospects and investments. Permanent tax reform, aimed at fostering stability and growth, requires a commitment to fiscal discipline and a reevaluation of government spending priorities.

The erratic nature of such spending and tax policies erodes the stability crucial for economic prosperity. Uncertainty, particularly around taxes, inhibits investment and innovation. Predictability is key to strategic planning and growth. For entrepreneurs, uncertainty is a strong disincentive. The fluctuating tax landscape presents a significant barrier to economic expansion.

Addressing this uncertainty requires permanent growth-oriented tax policies and controlling government spending.
The direction of tax reform must be twofold: advocating for broad-based, flat taxes and championing sustainable government budgets. This dual approach promises to enhance economic liberty and lay a foundation for robust growth, which should also reduce the number of days to Tax Freedom Day so more money is in our pockets.

Reflecting on Tax Day and Tax Freedom Day sparks a broader discussion on tax reform. We can envision a society that values freedom, peace, and prosperity by championing pro-growth policies of a simplified, flat tax system and sustainable spending.

Dispelling tax uncertainties and controlling government spending pave the way for economic policies that foster rather than hinder human flourishing.

The journey toward a more rational tax system is not merely fiscal; it’s a moral imperative. It demands bold, persuasive advocacy for policies that champion economic soundness while embracing the principles of liberty and opportunity.

We can inspire a movement toward genuine economic reform on this Tax Day by addressing the challenges posed by the current tax code and advocating for a shift toward a better fiscal regime with more days working for ourselves instead of Uncle Sam.

– April 15, 2024
ESG Puppeteers

Paul Mueller
(Senior Research Fellow)

The Environmental, Social, and Governance (ESG) framework allows a small group of corporate executives, financiers, government officials, and other elites, the ESG “puppeteers,” to force everyone to serve their interests. The policies they want to impose on society — renewable energy mandates, DEI programs, restricting emissions, or costly regulatory and compliance disclosures — increase everyone’s cost of living. But the puppeteers do not worry about that since they stand to gain financially from the “climate transition.”

Consider Mark Carney. After a successful career on Wall Street, he was a governor at two different central banks. Now he serves as the UN Special Envoy on Climate Action and Finance for the United Nations, which means it is his job to persuade, cajole, or bully large financial institutions to sign onto the net-zero agenda.

But Carney also has a position at one of the biggest investment firms pushing the energy transition agenda: Brookfield Asset Management. He has little reason to be concerned about the unintended consequences of his climate agenda, such as higher energy and food prices. Nor will he feel the burden his agenda imposes on hundreds of millions of people around the world.

And he is certainly not the only one. Al Gore, John Kerry, Klaus Schwab, Larry Fink, and thousands of other leaders on ESG and climate activism will weather higher prices just fine. There would be little to object to if these folks merely invested their own resources, and the resources of voluntary investors, in their climate agenda projects. But instead, they use other people’s resources, usually without their knowledge or consent, to advance their personal goals.

Even worse, they regularly use government coercion to push their agenda, which — incidentally? — redounds to their economic benefit. Brookfield Asset Management, where Mark Carney runs his own $5 billion climate fund, invests in renewable energy and climate transition projects, the demand for which is largely driven by government mandates.

For example, the National Conference of State Legislatures has long advocated “Renewable Portfolio Standards” that require state utilities to generate a certain percentage of electricity from renewable sources. The Clean Energy States Alliance tracks which states have committed to moving to 100 percent renewable energy, currently 23 states, the District of Columbia, and Puerto Rico. And then there are thousands of “State Incentives for Renewables and Efficiency.”

Behemoth hedge fund and asset manager BlackRock announced that it is acquiring a large infrastructure company, as a chance to participate in climate transition and benefit its clients financially. BlackRock leadership expects government-fueled demand for their projects, and billions of taxpayer dollars to fund the infrastructure necessary for the “climate transition.”

CEO Larry Fink has admitted, “We believe the expansion of both physical and digital infrastructure will continue to accelerate, as governments prioritize self-sufficiency and security through increased domestic industrial capacity, energy independence, and onshoring or near-shoring of critical sectors. Policymakers are only just beginning to implement once-in-a-generation financial incentives for new infrastructure technologies and projects.” [Emphasis added.]
Carney, Fink, and other climate financiers are not capitalists. They are corporatists who think the government should direct private industry. They want to work with government officials to benefit themselves and hamstring their competition. Capitalists engage in private voluntary association and exchange. They compete with other capitalists in the marketplace for consumer dollars. Success or failure falls squarely on their shoulders and the shoulders of their investors. They are subject to the desires of consumers and are rewarded for making their customers’ lives better.

Corporatists, on the other hand, are like puppeteers. Their donations influence government officials, and, in return, their funding comes out of coerced tax dollars, not voluntary exchange. Their success arises not from improving customers’ lives, but from manipulating the system. They put on a show of creating value rather than really creating value for people. In corporatism, the “public” goals of corporations matter more than the wellbeing of citizens.

But the corporatist ESG advocates are facing serious backlash too. The Texas Permanent School Fund withdrew $8.5 billion from Blackrock last week. They join almost a dozen state pensions that have withdrawn money from Blackrock management over the past few years. And last week Alabama passed legislation defunding public DEI programs. They follow in the footsteps of Florida, Texas, North Carolina, Utah, Tennessee, and others.

State attorneys general have been applying significant pressure on companies that signed on to the “net zero” pledges championed by Carney, Fink, and other ESG advocates. JPMorgan and State Street both withdrew from Climate Action 100+ in February. Major insurance companies started withdrawing from the Net-Zero Insurance Alliance in 2023.

Still, most Americans either don’t know much about ESG and its potential negative consequences on their lives or, worse, actually favor letting ESG distort the market. This must change. It’s time the ESG puppeteers found out that the “puppets” have ideas, goals, and plans of their own. Investors, taxpayers, and voters should not be manipulated and used to climate activists’ ends.

They must keep pulling back on the strings or, better yet, cut them altogether.

– April 18, 2024